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C O N F I D E N T I A L SECTION 01 OF 02 KUWAIT 000524

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DEPARTMENT OF ENERGY FOR IE, MWILLIAMSON
EB/ESC/IEC FOR GALLOGLY, DOWDY

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TAGS: [ENRG](#) [EPET](#) [ECON](#) [BEXP](#) [KU](#) [OIL](#) [SECTOR](#)
SUBJECT: KUWAIT'S OPEC GOV ASKS FOR CLARIFICATION ON
ADVANCED ENERGY INITIATIVE; OFFERS REVIEW OF KUWAIT'S OPEC
PRESIDENCY

REF: KUWAIT 000462

Classified By: DCM MATTHEW TUELLER FOR REASON 1.4 (B)

1. (C) Summary and Comment: During a February 13 meeting with Econ Officer, Kuwait's OPEC Governor Ms. Seham Razzouqi said that Kuwait "did not appreciate" the comments in the recent SOTU address about U.S. "addiction to oil" and a need to reduce dependency on oil imports from the Middle East. She asked for further clarification on these points, as well as additional information on any U.S. efforts to increase domestic reliance on nuclear energy and also how our energy strategies were being affected by global discussions on climate change. She described Kuwait's 2005 Presidency of OPEC as a "successful year", noting that Kuwait had especially worked to increase dialogue between producers and consumers. Comment: Razzouqi's remarks echo sentiments shared with us recently by other oil sector participants (reftel) and highlight the need to provide further information on the Advanced Energy Initiative to the major producers in this region. End Summary and Comment.

Fixated on "Addiction to Oil" Remarks

2. (C) Econ Officer met February 13 with Kuwait OPEC Governor Ms. Seham Razzouqi to review Kuwait's 2005 OPEC Presidency and to discuss general directions in Kuwait's oil industry. Razzouqi was clearly preoccupied with the remarks from the President's recent SOTU address, specifically the reference to America's "addiction to oil" and the plan to replace 75% of U.S. oil imports from the Middle East by 2025. Kuwait "did not appreciate" the remarks, according to Razzouqi, and she asked for any further clarification available. She added that other accusations in the past year of "OPEC as price-fixing cartel" have also been damaging and asked what could be done about such statements. She suggested that people could be better informed within consuming countries about what she described as "the many reasons" for high prices, including market speculation and bottlenecks in downstream refining capacity

3. (C) Razzouqi added that OPEC had been trying, especially under Kuwait's leadership in 2005, to improve dialogue between producers and consumers and she hoped to see better dialogue within consuming countries about oil supplies and prices. She asked that further clarification be provided on the newly proposed Advanced Energy Initiative (AEI), and specifically asked about any plans to increase reliance on nuclear energy at the expense of hydrocarbon resources. She also asked how the latest U.S. energy strategies were being shaped by the global discussion on climate change and the Kyoto Protocol, specifically noting the U.S. participation in the January 2006 AP6 conference in Sydney.

4. (C) Razzouqi mentioned the upcoming 10th International Energy Forum (IEF), to be held April 22-24 in Doha, as a good venue to continue the dialogue between producers and consumers. She also said that this would be a good event at which to clarify the specifics of the AEI and to offer additional clarification on USG future energy plans. She asked that we inform her about the makeup of the U.S. delegation to this conference.

Kuwait's Presidency of OPEC "A Successful Year"

5. (C) Reflecting on Kuwait's 2005 Presidency of OPEC, Razzouqi called it "a successful year," in which OPEC managed to supply the markets fully, despite the many challenges throughout the year. She said that the Kuwait Presidency focused on strengthening the dialogue between producers and consumers. She noted that a dialogue had previously been established between OPEC and the EU and that, in the past year, OPEC sought to increase the dialogue with Asia and Russia. She said that Kuwait also tried to focus on increasing transparency in the market and on raising the issue of taxes on hydrocarbons in the consuming countries.

She added that OPEC was now publishing more information on the capacity-expanding investment plans of its members. She said that Kuwait is "committed to OPEC" and has always been an active member, calling for "moderation with a balanced view."

16. (C) Razzouqi said that during his OPEC Presidency, Energy Minister Shaykh Ahmad Fahad Al-Ahmad Al-Sabah had "tried to reinforce the obligations of the consumer nations" and to provide "clear signals to the market" on actual supply and demand. An important element of gauging future prices, she explained, would include new OPEC initiatives to work with the EU to better understand the impact of financial markets on oil prices, and to understand how growing consumers such as China were building their reserves.

17. (C) The OPEC Governor noted that price stability is of the utmost importance to OPEC, but that it doesn't mean a constant price. "It's a depletable resource," she said, "so prices will naturally rise." She said that prices also need to reflect the increased costs of production, including increases in steel prices, and the difficulties in finding engineering and construction firms with spare capacity for new contracts.

Continuity At KPC, A Push For Kuwait Project, and Skills and Talent Challenges

18. (C) Razzouqi said that she expected continuity in the top management positions at KPC, given that the Energy Minister has retained his position in the new Cabinet. She said she understood that the foreign companies interested in the Kuwait Project "won't wait forever" for Kuwait to decide to move forward, but that Shaykh Ahmad "has the energy and convincing power" to move things forward. She described the biggest current challenge to KPC being the search for people with the proper skills and talents, noting that many young Kuwaitis are opting for computer engineering rather than petroleum engineering as their chosen field.

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